



DAVE CHITTENDEN  
Chief Deputy Director

## County of Los Angeles INTERNAL SERVICES DEPARTMENT

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*"To enrich lives through effective and caring service"*

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August 4, 2016

To: Supervisor Hilda L. Solis, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: Dave Chittenden  
Chief Deputy Director

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Joseph Kelly  
Treasurer and Tax Collector

A handwritten signature in blue ink, appearing to read "Joe Kelly".

### **BOARD MOTION NOVEMBER 3, 2015, ITEM NO. 38 - QUARTERLY STATUS REPORT ON THE COUNTY OF LOS ANGELES RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY (PACE) PROGRAM**

#### **Background**

On December 31, 2015, the Internal Services Department (ISD) and the Treasurer and Tax Collector (TTC) issued a report to your Board in response to issues raised about the residential PACE ("PACE") program at the November 3, 2015 Board Meeting. Therein, ISD and the TTC indicated that we would report back to your Board on the status of the PACE program quarterly through 2016. We issued our last status report on May 12, 2016.

#### **Environmental Benefits and Job Growth**

Every completed PACE project leads to measurable environmental benefits, such as reducing greenhouse gas emissions, electricity demand, and water usage. The table below estimates the cumulative, lifetime environmental benefits associated with PACE projects completed.

Environmental Benefits	Estimated Lifetime Project Savings
Energy Savings (kWh)	1,540,300,000
Water Savings (gallons)	1,317,000,000
Emissions Reduced (tons)	459,000

Collectively, the two County Program Administrators have reported that residential PACE has created an estimated 3,475 jobs in the County of Los Angeles, since program inception.

### **Automating the Assessment Contract Review Process**

In November 2015, ISD reported that implementation of the electronic transfer of data from the PACE Program Administrators ("PAs") and the automation of the review of assessment contracts was nearing completion. Unanticipated technical issues and the need to formalize this data transfer as a contractual agreement delayed the completion of this effort. ISD and Renovate America subsequently executed a Data Transfer Agreement, which facilitates the County's receipt of such data, in March 2016. ISD is presently in discussions with Renew Financial regarding a contractual agreement for ISD to receive similar data by December 2016.

Utilizing this data, ISD has devised, tested, and implemented a software program to review Renovate America's assessment contracts in an automated manner, thereby focusing staff's review on exception transactions such as incomplete assessment contracts or product pricing that falls outside of an acceptable range. Directing staff's efforts towards these types of exception transactions benefits the homeowners because staff can review and further confirm with the PA the appropriateness of the project before the project is approved to proceed. ISD will also use this data to monitor contractor behavior and home improvement pricing trends. An example would be trend analysis of contractor upselling (disproportionate price increases through contract amendments compared to the original quote of the project). Access to and interpretation of such data improves operational efficiency and offers the potential to conduct detailed programmatic trend analyses as ISD further refines this tool.

### **Bond Authorization Increase**

On June 21, 2016, your Board approved our request to increase the bond authorization limit for the County's PACE Program from \$500 million to \$750 million, which should be sufficient to manage the PACE Program through the end of December 2016.

### **Expansion of the PACE Program to Include Seismic**

At the July 21, 2016 and July 28, 2016 Operations Cluster Meetings, we briefed your deputies on our planned response to your March 22, 2016 motion to recommend expanding the County PACE program by adding other statutorily allowable measures (i.e. seismic retrofits, electric vehicle charging stations and leasehold or possessory interests in public property) and devising a process to include additional program administrators. If your Board approves these recommendations, our departments will take all necessary administrative actions to implement them, including submitting a request to increase the

programmatic bond authorization limit with an amount sufficient to manage the PACE Program through this fiscal year. We finalized and submitted our report responding to your motion on August 3, 2016.

### **Contract Compliance Reviews**

On June 23, 2016, ISD notified both PAs that the County will begin conducting contractually-mandated compliance reviews, which will cover the PACE program period of March 3, 2015 to June 30, 2016. This review will initially focus on compliance with consumer protections, including measures geared towards seniors and non-English speakers.

### **Contractor Marketing Guidelines (June 21, 2016 Board Agenda Item 42)**

During the June 21, 2016 Board Meeting, your Board instructed us to address contractor marketing guidelines in this quarterly report. More specifically, you impressed upon us the need for PAs, contractors, and any other related vendors to clearly convey to the public, particularly senior recipients, that property upgrades financed through the PACE program constitutes borrowed money that is paid back through an assessment on the Annual Secured Property Tax bill, and that such upgrades are not free. Accordingly, we have ensured that both PA's direct and contractor marketing guidelines:

- Prohibit language implying that a PACE loan results in no payment, limited payment or deferred payment.
- Require language clearly stating the homeowners will pay back the financed amount through an assessment on the Annual Secured Property Tax bill.

While we have carefully reviewed all direct and contractor marketing guidelines, we will continue our oversight to ensure that such guidelines are exceedingly transparent and do not misrepresent the PACE program to the public. The PAs periodically review contractor marketing material to ensure contractors are in compliance with their contractor marketing guidelines and have corrective and disciplinary measures in place to handle non-compliant contractors. Both PAs have reaffirmed their commitment to revising these materials on an ongoing basis as needed. Any necessary revisions that originate from the County's ongoing review process will be formally communicated to contractors through the PAs.

### **County PACE Website**

We have updated the [pace.lacounty.gov](http://pace.lacounty.gov) website (formally LAPACE.org), to be a one-stop County-sanctioned information source on PACE. The updated website provides information on program risks, repayment of the project costs through the annual property tax bill, and

various consumer protections, including dispute resolution processes. The PAs have agreed to reference the website on all their marketing materials that are specific to Los Angeles County.

### **Expanding the County PACE Program (March 22, 2016 Board Agenda Item 13)**

At the July 21, 2016 and July 28, 2016 Operations Cluster Meetings, we briefed our report responding to the March 22, 2016 Board Agenda Item 13. In the report and during these meetings, we recommended a process to include other program administrators in the County PACE program, provided they agree to: 1) the County's terms and conditions, 2) not engage in separate programs with individual cities, and 3) adopt the County's AB 811 legal framework for the issuance of assessment bonds. We also provided a status update on our outreach to cities to convey the importance of developing a coordinated Countywide PACE program with consistent and comprehensive standards for consumer protections. In addition, we compared the national PACE industry standards to those implemented by the two PAs and confirmed that the PAs' standards meet or exceed the national standards. Lastly, we discussed our plan to encourage the use of existing energy efficiency incentives in conjunction with the PACE program. We finalized and issued our report responding to your motion on August 3, 2016.

### **Federal Housing Administration (FHA) Guidance on Residential PACE**

On July 19, 2016, the FHA announced clear guidance that expands homeowner access to PACE projects nationwide. The FHA will now approve purchase and refinance mortgage applications in states, such as California, which treat PACE obligations as special assessments similar to property taxes. Lenders will be responsible for escrowing PACE payments as they would for property taxes. In addition, purchasers of homes with existing PACE obligations will be responsible for any unpaid balance of the obligation since PACE assessments remain with the property.

Although this is a positive development for PACE, the FHA announcement does not apply to the Federal Housing Finance Agency (FHFA), which oversees mortgages financed by Fannie Mae and Freddie Mac. FHFA has not changed its policy guidelines with respect to PACE.

### **ISD PACE Program Staffing Adjustments**

Effective May 23, 2016, Ms. Elizabeth Ginsberg assumed responsibility as the interim Program Manager for the County's PACE program, on loan to ISD from the TTC.

Effective July 1, 2016, staffing changes went into effect to separate and transfer PACE operational duties from financial responsibilities. ISD has reassigned financial duties from

its County Office of Sustainability (COS) to its Administration and Finance Service (AFS), along with additional staffing, to handle the increased workload.

These changes will not incur any cost to the County, as they will be funded from the administrative fees collected from the homeowners through the PAs. Collectively, these changes provide the staffing necessary to manage the PACE program, as well as ensure appropriate separation of duties is achieved through organizational reporting structures.

### **Notices to Homeowners**

In anticipation of questions that could arise when PACE assessments appear on the 2016-2017 Annual Secured Property Tax Bills that the Tax Collector will mail in October 2016, both PAs agreed to mail payment reminder notices to property owners with PACE assessment contracts. Renovate America began mailing the notices in July 2016, and Renew Financial expects to mail their payment notices toward the end of August.

### **Program Complaints**

The table below provides a summary of complaint statistics from both County PACE PAs since the program launched on May 28, 2015.

<b>COMPLAINT TRACKING:</b> (As of June 30, 2016)				
<b>Complaint Type</b>	<b>Complaints Received Since Inception (05/28/2015)</b>	<b>Resolved Complaints</b>	<b>Average Days Until Resolution</b>	<b>Unresolved Complaints</b>
<b>Contractor Conduct</b>	106	90	10	16
<b>Multiple Issues</b>	8	8	18	0
<b>Contracting/Financing Process</b>	124	117	8	7
<b>Terms of Financing</b>	279	241	12	38
<b>Project Workmanship</b>	460	387	14	73
<b>Grand Total</b>	<b>977</b>	<b>843</b>	<b>14</b>	<b>134</b>

Complaint: A call received by the PACE PA citing a specific issue that required escalation for resolution.

Resolution: The PACE PA has taken some affirmative steps towards rectifying the problem and received verification from the original caller that he or she is satisfied with the action.

Unresolved: The PACE PA and the original caller are still discussing resolution.

The cumulative number of complaints expressed as a percentage of applications approved by ISD (19,393) is 5%.

### **Program Progress**

The County's PACE program continues to demonstrate market demand and growing participation. The table below provides relevant statistics since the program launched on May 28, 2015.

<b>DESCRIPTION:</b> The below data is compiled from the two PAs: Renovate America/HERO and Renew Financial/California First.					
<b>PROGRAM DATA:</b> (As of 06-30-2016)					
Financing Applications Submitted	Financing Projects Approved by ISD	Value Approved by ISD (\$)	Completed Projects	Bond Financing Provided (\$)	Average Financing Per Projects (\$)
42,961	19,393	519,224,000	14,146	338,995,000	23,964
	Fully or Partially Paid-off Assessments		Value of Paid-off Assessments (\$)		
	550		11,268,000		
<b>BY SUPERVISORIAL DISTRICT:</b>					
Supervisory District	Financing Projects Approved By ISD	Completed Projects	Value of Completed Projects (\$)	Average Value of Completed Projects (\$)	
District 1	3,526	2,445	55,395,233	22,656	
District 2	4,243	3,122	78,134,175	25,026	
District 3	2,808	2,031	53,079,435	26,134	
District 4	4,429	3,387	78,256,505	23,104	
District 5	4,387	3,161	72,130,542	22,818	

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## **Conclusion**

Since January 2016, our departments continue to hold monthly in-person meetings with an executive representative of each of the PAs to discuss their respective PACE programs. Apart from the regularly scheduled meetings, we have conducted several ad hoc teleconferences to address matters as they arise. Collectively, these meetings and conversations have established an executive-level engagement that has complemented staff efforts and improved the overall coordination among the ISD, the TTC, and the PAs. We will continue to focus on ensuring long-term program quality and a positive consumer experience, all within a consumer's ability to repay the project's costs through the Annual Secured Property Tax Bill.

Should you have any questions, please contact Dave Chittenden at (323) 267-2103, via email at [dchittenden@isd.lacounty.gov](mailto:dchittenden@isd.lacounty.gov). You may also contact Joseph Kelly at (213) 974-2101, via email at [jkelly@ttc.lacounty.gov](mailto:jkelly@ttc.lacounty.gov).

DC:JK:EBG

c:     Assessor  
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         Chief Operating Officer  
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         Executive Officer, Board of Supervisors  
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